

DOCKET SECTION

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001**

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Docket No. R97-1

POSTAL RATE AND FEE CHANGES

**RESPONSE OF
AISOP WITNESS GODFRED OTUTEYE
TO INTERROGATORIES OF
ASSOCIATION OF ALTERNATE POSTAL SYSTEMS
(AAPS/AISOP-T1-1-15)**

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AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-1. At page 5, you testify that your restaurant customer cannot afford to send its full menu into two zones but mails a coupon-size ad into one zone and the full-page menu into another. With respect to this testimony, please answer the following questions:

- (a) How much does the coupon weigh?
- (b) How much does the menu weigh?
- (c) What do you charge for mailing the coupon?
- (d) What do you charge for mailing the menu?
- (e) What is the typical or range of weights for the set in which the coupon and menu are mailed?
- (f) What is the average number of pieces per set?

The example given in my testimony referred to an actual family owned oriental restaurant, but was illustrative of a situation faced by many of our franchisees' restaurant customers where they would like to mail a larger/heavier piece, but price constraints make it difficult for them to do so. This answer will give the general range of weights and prices charged by franchisees in our system in this type of situation.

- (a) The coupon weighs approximately 1/10th of an ounce.
- (b) An 8½ x 11 full-size page menu might weigh from approximately 2/10th of an ounce to approximately one-half an ounce depending on whether paper or a type of card stock is used.
- (c) We do not charge for "mailing the coupon." Our pricing includes design, printing, mail distribution, and servicing the customer's account. It also includes placement of the coupon on the Internet. Each individual franchisee is free to set his or her own rates. Discounts or a reduction in rates are given for volume and frequency. In the example in my testimony involving a small business that had been a loyal customer of the franchisee for many years, the price charged was a "package price" for mailing a coupon and a menu on a frequent basis. Because of the longstanding business relationship between our franchisee and this restaurant, this restaurant customer is getting a ride along or package price for her menu and coupon mailing that is discounted approximately 30% from the average range of rates charged by our franchises. The average charges of our franchises for a coupon mailing to one zone of 10,000 homes is approximately \$250 to \$350. Lower prices are usually charged to get a first time customer to try the mail, to induce an existing customer to mail an additional zone, and to medium to larger customers buying throughout the region. The coupon price for a regional buy ranges from \$150 to \$250. The pricing to national accounts is substantially lower (\$30 to \$100) and may involve advertisers that supply the advertising piece.

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- (d) As discussed above, Money Mailer does not “charge for mailing” a menu. Our prices would include design, printing, distribution, and servicing the account. In the example given in my testimony, the desire of our franchisee to help this struggling family business resulted in the business getting a discount of approximately 30% off typical prices. This restaurant customer is not getting a separate charge for mailing the coupon and mailing the menu. In a more typical situation throughout our system, the charge for distributing an 8½ x 11 page menu to one zone would depend on the type of paper used for the piece and whether or not we had mailed the piece in the past. If it is a first time mailing, it is necessary for us to charge a special printing set up fee to get the menu to fit on an 8½ x 11 standard format. Our typical print set up charge is a one-time fee of \$90. The printing, distribution, and account servicing charges paid by the customer for distributing the menu to one zone thereafter would range from approximately \$460 for a 2/10ths of an ounce piece to \$560 for a menu printed on heavier card stock that is approximately 4/10ths of an ounce.
- (e) 2 to 4 ounces. Our system wide average weight for our coupon envelopes is .1757 pound or 2.211 ounces.
- (f) If system wide extremes of high and low piece counts are excluded, the average number of pieces in our envelopes ranges from 25 to 28 pieces.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-2. Have you run into any situations in which a small retailer is unwilling to place his advertisement in a package containing the advertisement of a competitor with lower prices?

This occasionally happens but it is rarely an impediment to an advertiser buying an ad in a Money Mailer envelope. The number one consideration of small retailers in determining to place ads in our envelope is the price and their return on investment. Our shared mail advertising is no different than any other advertising media. Competitors' billboards are seen on the same street and newspapers carry display and insert advertising where competitors often appear on the same page. Even when advertising giants like Coca-Cola buy spots on TV, they have little or no control about Pepsi ads running moments later.

Price resistance is the biggest obstacle we face in selling a coupon to the small retailer.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-3. At page 8, you refer to the “14.4 percent postal rate increase of January, 1995. . . .” Please provide quantitative support for this statement, including the postage for a typical Money Mailer mailing prior to the increase and for an identical mailing after the increase.

Prior to January, 1995, most of Money Mailer’s mailings were at the basic saturation rate of 12.4 cents. After January, 1995, the basic saturation rate increased to 14.2 cents for a typical Money Mailer saturation mailing below the break point. This resulted in an increase of 14.5% for our typical mailings. With drop ship discounts, our system wide average postage rate increase was approximately 14.4%.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-4. At page 8, you state that, between 1992 and 1995, Money Mailer “was on track to see its business double.” What does this mean? Double by when?

My testimony was based on the business our company was doing with the United States Postal Service before the 14.4% postage rate increase we experienced in 1995. Our postage payments for saturation mailings to the Postal Service for 1992 through 1994 (a period of rate stability) were as follows:

1992	\$7.1 million
1993	\$9.0 million
1994	\$11.8 million

Our business was on track to have the volume of saturation mailings we did in 1992 double by approximately 1996 or 1997.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-5. Did the rate changes made on July 1, 1996, in connection with the reclassification case affect your business? Please explain.

The rate changes of July 1, 1996 had a positive affect on our business but we have still not recovered from the setback of the January, 1995 14.4% postal rate increase. This is discussed in my testimony. The rate changes of reclassification sent a signal to our business, and our franchisees, that the Postal Service was making an effort to be a cost-effective provider of distribution services for saturation advertising. This has helped us rebuild some of the business we lost. The rate changes of reclassification resulted in Money Mailer developing incentive programs for franchisees to increase the frequency of their mailings and to expand into additional territory.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-6. At page 8, you state that the volumes for your saturation mail envelopes are lower in 1997 than they were in 1994. What was the typical or range of weights and number of pieces per envelope for each year 1994 to 1997?

The chart below shows what happened to our mail volumes when postage rates went up in January, 1995. As a result of prior commitments made by our franchisees to mail, the affect of the postage rate increase, and the attrition of franchisees in our system, began in 1995 and continued throughout 1996. The benefits of reclassification helped us rebuild confidence in the Postal Service as a vendor.

<u>Year</u>	<u># of Saturation Shared Mail Envelopes Mailed</u>	<u>Range of Weight</u>	<u>Range of Pieces</u>
1994	9,922,000	1.7 to 3.7 ounces	16 to 36
1995	10,825,000	1.7 to 3.7 ounces	16 to 36
1996	9,331,000	1.6 to 3.6 ounces	15 to 35
1997	8,703,000	2.0 to 4.0 ounces	20 to 40

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AAPS/AISOP-T1-7. At page 9, you state that some of your franchisees could not survive and quit. Did another company replace them? In the areas in which your franchisees quit, are small retailers without any options for low-cost delivery of advertisements?

In most cases where franchises quit, no other company “replaced them.” The markets where franchisees quit covered the whole spectrum from large, highly developed metropolitan areas where advertisers have a variety of advertising choices (including other saturation mail coupon programs) to areas where small retailers were left without a comparable option for low cost delivery of their advertisements.

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AAPS/AISOP-T1-8. At page 9, you state that "sales beyond the breakpoint often seemed counterproductive to our franchisees because of the high pound rate."

- (a) What is the weight of a typical coupon carried by one of your franchisees?
- (b) For the pound rates that were in effect both prior to July 1, 1996, and after July 1, 1996, what was the cost of additional postage at the pound rate for mailing one additional coupon?
- (c) What was the typical charge by your franchisees to advertisers wishing to have such a coupon mailed?

- (a) The typical weight of a coupon is 1/10th of an ounce.
- (b) We cannot look at the pound rate alone to determine the additional cost for postage when a franchisee adds an additional coupon to the package that converts our package from a letter size mailing under the break point to a mailing that pays postage at the pound rate. Because pieces entered at over the break point must pay the surcharge for flats, the additional cost for postage at the pound rate for mailing one additional coupon includes the flat surcharge as well as postage at the pound rate. The approximate cost for additional postage and the flat surcharge that needed to be paid before reclassification for adding an additional coupon to the package that brought us over the break point was .63 cents. After July 1, 1996, the combined cost of postage for that additional coupon is approximately .81 cents.
- (c) Your hypothetical question assumes that we have a franchisee that knows it is making an advertising sale that will add just one coupon to the package that will push the package from below or at the break point to the pound rate. This would not be a "typical" situation for a franchisee. If this was to occur, the franchisee would make sure that the price it charged would be sufficient to cover the extra charges due to postage and the other costs of doing business. What makes this entire situation difficult for our franchisees and our system is that the last sales made to fill up the envelope are seldom "typical" sales. The full retail price charged by a franchisee to a typical local merchant mailing to one to three zones of 10,000 homes per zone might range from \$275 to \$350. This is our "typical" retail price for an advertiser making a small buy.

By the time a franchisee is making a sale that may fill the envelope so that it might exceed the break point, the franchisee is usually not making "typical" "full retail" sales. The franchisee has already sold as many coupons as he or she can at "retail" to the small merchant. The last sales into the envelope are likely to be sales like the following:

- (1) Sales to larger or regional businesses that can demand a lower rate for coupon advertising because we are competing with the rates charged for other media. The rates paid for high volume advertisers covering a broad geographic area typically range from \$150 to \$250. National advertisers receive even lower rates ranging from \$30 to \$100.

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- (2) Sales made to advertisers who want to sell untypical pieces that weigh more than the standard coupon.
- (3) Sales made to advertisers being offered a discount to experiment with mailing into an additional zone or a new territory.

Because of the nature of our business, where advertisers often make decisions at the last minute, it is not possible to accurately predict when a mailing will exceed the break point. This also is true because some advertisers want to mail to zones where there is more than one franchisee involved. Multiple zone sales create special problems for us in pricing as some fair compensation or commission needs to be paid to another franchisee who will have a coupon added to the envelope. This is part of what makes it so difficult to address your question. A franchisee might be offering a significant discount to get a new advertiser into its mailing program. If the franchisee has lots of room in its envelope, it might offer a price of \$225. If the advertiser then decides it wants to mail into a zone that is at or near the break point handled by another franchisee, the combined costs of the second sale for postage, printing, and payment to the other franchisee, may be equal to or exceed the entire second zone price.

Because the sales that are likely to fill the envelope beyond the break point are not "typical" and often involve larger advertisers, larger pieces, or multiple zones and franchisees, the combined impact of the high pound rate plus the surcharge for pieces that weigh more than the break point often make sales beyond the break point counterproductive.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-9. At page 10, you describe a “Home at Last” program.

- (a) At what rate is this program mailed?
 - (b) Would you favor a rate change that decreased rates for saturation ECR and increased rates for other Standard mail?
-
- (a) Automation rate 3 digit or 5 digit.
 - (b) From the standpoint of our business, the saturation ECR rate is most important to our business health and success. Affordable saturation ECR rates help us generate other types of standard mail like our Home at Last and solo mail programs. Because of the uniquely targeted and higher value of mailings sent to new movers, our customers and our franchisees are better able to pay higher rates for this type of mail than can be paid for saturation ECR mail which is less targeted and competes with a greater variety of other mass media advertising. However, my testimony is in support of the United States Postal Service proposal. I am not advocating any further rate change or shifting of rates between standard mail and saturation ECR.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-10. At page 11, you describe a program that mails to a customer mailing list.

- (a) Are such mailings typically mailed at the piece rate or the pound rate?
- (b) Would you favor a rate change that reduced the pound rate but increased the piece rate?

- (a) Piece rate.
- (b) My testimony is in support of the rates proposed by the Postal Service. We are not requesting or submitting testimony in favor of a different rate proposal.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-11. At page 13, you testified that the present pound rate does not make “good economic sense for the United States Postal Service.” Does this mean that it could attract more business with a lower pound rate? Please explain.

Yes. See pages 13 through 15 of my testimony.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-12. At page 13, you discuss a situation in which the envelope is under the breakpoint in some zones, and the franchisee “really has an incentive to offer deals to fill those envelopes.” Please confirm that, as they fill those envelopes up to but not exceeding the breakpoint, there are added costs to the Postal Service to process and deliver the envelopes but no additional revenues for the Postal Service. In your view, does this make good economic sense for the Postal Service?

I cannot confirm that adding additional pieces to envelopes under the break point adds additional cost to the Postal Service. It is my understanding that there are Postal Service studies that support the existing rate structure for standard mail and suggest that the costs for mail up to the break point have very little relationship to weight. If there are any additional costs, I would expect these costs to be very small.

It is the nature of our business that Money Mailer and its franchisees do better as more advertisers and coupons are added to our envelopes. As Money Mailer and its franchisees do well, we are able to expand the number of mailings we do and the geographic areas we serve. This makes good sense for both Money Mailer and the Postal Service.

I would stress in responding to this question that Money Mailer and its franchisees assume the risk of paying all the postage due for its mailings whether or not the envelopes are “full enough” for the franchisees to break even. Your question seems to suggest that the Postal Service is not benefitting from our franchisees that have “full” envelopes. Our franchisees do not get a reduction in postage or a rebate if they fail to sell enough coupons to cover their postage, printing, and expenses of running a business.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-13. You also testify in the same paragraph at page 13 that if advertisers want to cover zones where the envelope is almost full, the franchisee may find that he or she is working too hard “to make a sale that only benefits the Postal Service.” Please provide all necessary data and calculations to support this statement that an additional sale of a coupon benefits only the Postal Service if the incremental weight of that coupon is charged at the pound rate.

See my answer to AAPS/AISOP-T1-8.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-14. You testify at page 13 that you face “the high costs associated with putting bigger pieces or heavier pieces in our envelope.” Are you referring just to postage costs or to internal handling costs as well? If the latter, please explain why your handling costs increase with heavier or bigger pieces.

I was just referring to the additional postage costs.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-15. At page 14, you state that many of your franchisees basically “stop selling” when they “near a full envelope.” For a coupon weighing one-tenth of an ounce, which is what you say at page 13 your standard coupon weighs, confirm that the incremental postage at a 55.2 cent pound rate is 0.345 cents a piece, or \$3.45 per thousand. How much do your franchisees charge to mail 1,000 coupons?

I cannot confirm that the incremental postage for an additional coupon is .345 cents a piece. Most of Money Mailer’s mailings are not drop shipped and our incremental costs for postage at the break point alone, without consideration of the flat surcharge, is .4143 cents per piece. The .4 cent surcharge for pieces entered above the break point brings the additional postage related costs for one more coupon to approximately .81 cents.

Our franchisees do not “charge” to mail 1,000 coupons. See my answers to AAPS/AISOP-T1-1 and AAPS/AISOP-T1-8 for a more detailed discussions of our pricing.

DECLARATION

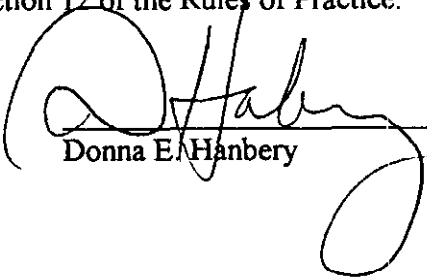
I, Godfred Otuteye, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information and belief.

February 9 1998


Godfred Otuteye

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Donna E. Hanbery

February 9, 1998